

Federal Rate Filing Justification Part III  
Actuarial Memorandum & Certification  
For UnitedHealthcare Insurance Company  
State of Kentucky Rate Review

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# FEDERAL Rate Justification PART III – Actuarial Memorandum & Actuarial Certification

## Purpose

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The purpose of this actuarial memorandum is to provide information relevant to the Part I Uniform Rate Review Template (URRT).

This document contains information that consists of confidential, proprietary trade secrets under state and federal law. Under federal law, this information is exempt from disclosure under Exemption 4 of the U.S. Freedom of Information Act, 5 U.S.C. §552, is a trade secret or confidential commercial or financial information as defined in 45 CFR §5.65, and protected from disclosure under 45 CFR §§5.1 – 5.69, and 45 CFR §154.215 (i)(2). The attached document contains confidential, proprietary information and trade secrets. This information is protected from disclosure by KY Rev. Stat. §61.878(1)(c), Section 4 of 200 KY. Admin. Regs. 1:020, and the Kentucky Uniform Trade Secret Act, KY Rev. Stat. §§ 365.880 to 365.900.

## General Information

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### *Company Identifying Information*

Company Legal Name: UnitedHealthcare Insurance Company

State: Kentucky

HIOS Issuer ID: 28773

Market: Small business, 1-50

Effective Date: 1/1/2017 – 12/31/2017

### *Company Contact Information*

Primary Contact Name: [REDACTED]

Primary Contact Telephone Number: [REDACTED]

Primary Contact Email Address: [REDACTED]

## Proposed Rate Increase(s)

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UnitedHealthcare Insurance Company in Kentucky issues group major medical products. The overall estimated impact over the prior 12 months on 2016 rates including trend due to changes proposed in this filing is 7.0%. Please refer to Unified Rate Review Template (URRT) worksheet 2 for additional information on the rate change by plan. Note that there are no current ACA membership on this legal entity, so the estimated rate impact is estimated based on projected membership.

### ***Reason for Rate Change***

UnitedHealthcare is filing rate changes effective 1/1/2017 for existing benefit plans that meet the coverage and rating requirements of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, collectively referred to as the Affordable Care Act (ACA). Proposed changes include the following:

- **Changes that vary by plan**
  - Some plan designs have changes to cost-sharing requirements solely to maintain its existing metal level. This set of plans will be called our 2017 ACA plan portfolio.
  - The plan relativity factors are being repriced to be consistent with our most recent pricing model. In order for this repricing to be revenue neutral in aggregate, a -8.5% change to Base Rate is required.

- [REDACTED]

## Experience Period Premium and Claims

**Experience Period, Paid Through Date**

The experience period is 1/1/2015 to 12/31/2015, paid through 2/29/2016. The experience includes only non-grandfathered policies.

### ***Experience Period – Premiums***

Total earned premium in the experience period was \$870,448. Anticipated 2015 MLR rebates are \$0. Therefore, total premiums (net of MLR Rebate) are \$870,448.

[illegible]

## Benefit Categories

[illegible]

## Projection Factors

### ***Insured Population Morbidity Changes***

\_\_\_\_\_

### ***Benefit Changes***

[REDACTED]	
	[REDACTED]
	[REDACTED]
	[REDACTED]
	[REDACTED]
	[REDACTED]
	[REDACTED]
	[REDACTED]
[REDACTED]	

### ***Demographics Changes***

[REDACTED]	
	[REDACTED]

### ***Other Adjustments***

[REDACTED]
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### ***Trend Factors (Cost, Utilization)***

[REDACTED]	
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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

# Credibility Manual Rate Development

## *Experience Data Used – Source and Appropriateness*

The UnitedHealthcare Insurance Company (UHIC) experience includes 2,592 member months. We generally assign full credibility at 25,000 member years, or the equivalent of 300,000 member months. For the credibility manual, we assigned partial credibility to the combined Kentucky small group experience sold by UnitedHealthcare Insurance Company (UHIC), UnitedHealthcare of Kentucky (UHC of KY), and UnitedHealthcare of Ohio (UHC of OH) (collectively, UnitedHealthcare) and blended the experience with the fully credible Indiana small group experience sold by UHIC.

[REDACTED]

## **Data Adjustments**


## **Experience Credibility**

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## **Paid To Allowed Ratio**

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The paid to allowed ratio is 0.835. The paid to allowed average factor for the projection period is based on the actual paid to allowed in the experience period, adjusted for expected leveraging and migration to new plans.

For each plan, the projected member months were multiplied by the 2017 calendar year index rate. This is the projected allowed claims for the plan.

The projected allowed claims amount was multiplied by the expected paid-to-allowed relationship (AV and cost-sharing structure) for each plan in order to calculate the total incurred claims, payable with issuer funds.

The incurred claims for all plans were added together and divided by the total allowed claims for all plans in order to calculate the paid to allowed ratio.

## **Risk Adjustment and Reinsurance**

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### ***Projected Risk Adjustments (PMPMs)***

Based on the study by a national actuarial consulting firm for a market-majority of carriers within Kentucky, the UnitedHealthcare book of business has a relative risk score that is roughly equivalent to the statewide average. Due to the risk adjustment on ACA rates, we need to normalize our claim cost to the statewide average. This normalization accounts for 0.0% of the claim cost. Risk transfer of \$0.00 PMPM is assumed to be received and risk adjustment user fee of \$0.15 PMPM is assumed to be paid, therefore total projected risk adjustment is a net payer of \$0.15 PMPM.

**Projected ACA Reinsurance Recoveries Net of Reinsurance Premium**

Since the state of Kentucky chose not to combine its individual and small group markets, reinsurance recoveries are not applicable to this rate filing. No reinsurance premiums are assumed to be charged in 2017.

## Non-Benefit Expenses and Risk Margin

### ***Administrative Expenses***

\_\_\_\_\_

\_\_\_\_\_

### ***Profit & Risk Margin***

\_\_\_\_\_

### ***Taxes and Fees***

\_\_\_\_\_

[illegible]

The Single Risk Pool is established according to the requirements in 45 CFR part 156, §156.80(d).

The Single Risk Pool reflects all covered lives for every non-grandfathered product/plan combination in the state and market. The Single Risk Pool is specific to UnitedHealthcare Insurance Company in the Kentucky small group market.

The index rate for the experience period is equal to the allowed claims PMPM. No adjustments were made for payments and charges under the risk adjustment and reinsurance programs or for Exchange user fees.

The index rate for the projection period of \$498.75 is the weighted average of the projected allowed claims applicable for each effective date. The projection period (1/1/17 – 12/31/17) projected allowed experience claims PMPM is trended to the midpoint of each remaining quarter in 2016. The weighted average was based on the projected member months with effective dates for policy periods beginning in each quarter starting with third quarter 2017. The calculation is shown below.

No benefits in excess of essential health benefits were projected. No adjustments for payments and charges under the risk adjustment and reinsurance programs or for Exchange user fees were made to the index rate calculation above; only to the Market Adjusted Index Rate. The trend assumption reflects the assumed changes in cost and utilization going forward in 2017, and is consistent with the 2017 pricing trend. Please refer to the Trend section for additional information.

## Market Adjusted Index Rate

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## Plan Adjusted Index Rate

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Calibration

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## Consumer Adjusted Premium Rate Development

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[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

## AV Metal Values

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All Actuarial Values (AV) were based on the 2017 Actuarial Value Calculator. Some adjustments were made to plan designs in order to appropriately model the design in the AV calculator. When possible, data from the AV Calculator was used to make the adjustments. If the necessary data from the AV Calculator was not available, adjustments were developed based on UnitedHealthcare’s historical experience and proprietary pricing model. The adjustments are outlined below.

- **Per Occurrence Copays and Effective Coinsurance Inputs**

According to the User Guide of the Actuarial Value Calculator in the FAQ section, the tool will not allow both copays and coinsurance to apply. In order to apply copays in conjunction with coinsurance, the copay is applied as an effective coinsurance rate in order to calculate an AV score appropriate for the plan designs in question.

For example, Plan 6L-9, to convert the \$300 Emergency copay amount to effective coinsurance, we divided the flat dollar copay by an average unit cost calculated using the Gold continuance table included in the AV calculator (e.g. \$2,278). Note: for Silver plans we used \$2,524 and for Bronze plans we used \$2,646 because each metallic level has different continuance tables.

- For Plan 6L-9, the Emergency Room cost share was determined to be equivalent to 67.3% coinsurance.
- a.  $\$300 \text{ copay (rounded)} = 13.2\% \text{ (i.e. } 300/2,278)$
  - b.  $\text{Copay is applied first so (rounded)} = 20\% \times (2,278 - 300)/2,278 = 17.4\%$

$$\text{Final Emergency Room cost share} = 100\% - 13.2\% - 17.4\% = \underline{69.5\%}$$

In the case where the cost sharing feature is a per occurrence copay (POC), meaning the POC applies to each instance the service is utilized in addition to the deductible and coinsurance (until the maximum out of pocket limit is reached), an effective coinsurance is calculated. The AVC is run with **both** this effective coinsurance, as well as the POC in the coinsurance and copay inputs. In this portfolio POCs apply to IP Facility, ER, Imaging, and OP Surgery.

An example of a POC of \$250 on Imaging for Silver plan (UHC of KY/UHC of OH) AL-GD with 80% coinsurance is calculated similarly to the ER effective coinsurance above. The \$250 is first divided by the average unit cost for Imaging using the Silver continuance table included in the AV calculator (e.g. \$852). The effective coinsurance portion of the POC is determined to be 56.5%. This is input into the calculator along with the \$250 copay portion.

- a. \$250 copay (rounded) = 29.3% (i.e. 250/852)
- b. Copay is applied first so (rounded) =  $20\% \times (2,524 - 400)/2,524 = 14.1\%$

$$\text{Imaging Effective Coins} = 100\% - 29.3\% - 14.1\% = \underline{56.5\%}$$

Note that for OP Surgery, only an effective coinsurance is entered into the AVC because it will not account for a copay to be input.

The following table illustrates the average unit costs by service and by metal level used to calculate the effective coinsurance as described above.

Service Category		Actuarial Value Calculator			
		Platinum	Gold	Silver	Bronze
Medical Services		Average Unit Cost per Visit			
	ER	1,972.23	2,278.47	2,523.74	2,646.46
	IP	21,247.27	22,617.63	23,239.34	22,699.77
	MRI	782.44	827.14	852.04	892.04
	OPSurg	8,209.55	8,176.59	8,587.25	8,756.91

### • Specialty Drugs Copay Input

The Actuarial Value Calculator allows the user to reflect a different level of cost sharing to apply to Specialty Pharmacy expenses than other Pharmacy costs. This may be reflected by entering a copay that applies only to Specialty Pharmacy. UnitedHealthcare's benefit designs include plans with different Specialty Pharmacy cost sharing levels depending on the tier designation of the specific script.

In order to reflect the Specialty benefit in the AV calculator, the Rx Tier cost share with the highest specialty drug utilization is entered into the Specialty Drug tier in the AV calculator. For plans with no



specialty copays, this would be the same as the Tier 2 copay. For plans with specialty copays at different tiers, the Tier 2 specialty copay is input into the calculator. Below are two examples for a \$15/\$45/\$85 plan, which have specialty copays of \$15/\$100/\$300 and a plan with copays of \$10/\$35/\$60 with no specialty copays.

	Example 1		Example 2	
	Non-Specialty Copay	Specialty Copay	Non-Specialty Copay	Specialty Copay
Tier 1	\$15.00	\$15.00	\$10.00	N/A
Tier 2	\$45.00	\$100.00	\$35.00	N/A
Tier 3	\$85.00	\$300.00	\$60.00	N/A
<b>Tier 4</b>	<b>\$100.00</b>		<b>\$35.00</b>	

The following chart outlines the adjustments.

Plan Name	Plan ID	HRA or HSA Employer Funding Amount	Metallic Level	AV Score Min	AV Score Max	Non Standard IP and OP Cost Sharing	POC's and Cost Sharing Converted to Effective Coinsurance	Copay limits on PCP/SPC (combined)	Navigate Plus (Gate keeper)	Navigate Premier	Specialty Rx Copays	Narrow Formulary Plans
6L-9	28773KY0010002		Gold	80.6%		N	Y	N	N	N	Y	N
AC-TH	28773KY0050001		Gold	78.6%		N	N	N	N	N	Y	N

## AV Pricing Values

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The AV Pricing Value represents the cumulative effect of adjustments made by the issuer to move from the Market Adjusted Index Rate to the Plan Adjusted Index Rate. The AV Pricing Value is attributable to the following allowable modifiers:

- Provider network, delivery system and utilization management adjustment
- Actuarial value and cost-sharing design of the plans
- Distribution and administrative costs

Please refer to the Plan Adjusted Index Rate section for additional details.

## Membership Projections

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Most recent membership data on current plans was used to estimate the projected membership. The projected membership is based on the projection period of 1/1/2017 – 12/31/2017. It was assumed current non-grandfathered membership and terminated plan membership would migrate to similar fully ACA-compliant plans offered in 2017. No persistency or new business sales assumptions were included in the projected membership.

## Terminated Products

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There are no new terminated plans or products in this filing. Terminated plan mappings are summarized in the Plan Mapping Crosswalk exhibit on the following page. All non-single risk pool plans have the Plan ID "28773KY0010000".

Exhibit - Plan Mapping Crosswalk

State: KY | Market Segment: Small Group | Company: UnitedHealthcare Insurance Company | HIOS Issuer ID: 28773 | Proposed Effective Date: 1/1/2017

SCID	Original Effective Date of Plan	Active Plan Indicator	Terminated Plan Indicator	Terminated Date	Active Plan Mapping (if applicable)	Separate Column In Wksht 2 - URRT Indicator	Wksht 2 - URRT Column Exclusion Reason Code **
28773KY0010002	1/1/2015	X				X	
28773KY0050001	1/1/2016	X				X	
28773KY0010001	1/1/2014		X	12/31/2015		X	

\*\*Worksheet 2 - URRT Column Exclusion Reason Code Key

(1) - Highest membership plan mapped to New Plan, Experience Captured in column of Mapped Plan (see page 74 of 2017 URRT Instructions)

(2) - Terminated Plan not available during Experience Period (see page 78 of 2017 URRT Instructions)

## Plan Type

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All plans fall under the POS and Indemnity plan type.

## Warning Alerts

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There are no warning alerts on Worksheet 1.

There is one warning alert due to differences between the projection period information on Worksheet 2 section IV and the total projected amounts on Worksheet 1:

- **Total Premium:** The total premium in Worksheet 1 is lower than the total premium in Worksheet 2 because the Single Risk Pool Gross Premium Avg. Rate in Worksheet 1 is lower than the Plan Adjusted Index Rate in Worksheet 2. This is because the average rate PMPM in Worksheet 1 represents the projection period 1/1/17 – 12/31/17, whereas the Plan Adjusted Index Rate in Worksheet 2 reflects quarterly trend adjustments by accounting for rate effective dates throughout 2017.

## Reliance

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I have relied on data provided by Unitedhealthcare's Finance Department in determining the Non-Benefit Expenses and Risk Margin information, including administrative expenses, profit and risk margin, taxes and fees, and the projected loss ratio under the Federally prescribed MLR methodology.

## Actuarial Certification

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I, [REDACTED] am an actuary of Unitedhealthcare and a member of the American Academy of Actuaries.

I certify that the projected index rate is:

- In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)),
- Developed in compliance with the applicable Actuarial Standards of Practice,
- Reasonable in relation to the benefits provided and the population anticipated to be covered, and
- Neither excessive nor deficient

I certify that the index rate and only the allowable modifiers as described in 45 CFR 156.80 and 147.102 were used to generate plan level rates.

I certify that the percent of total premium that represents EHBs included in Worksheet 2, Sections III and IV was calculated in accordance with actuarial standards of practice.

I certify that the geographic rating factors reflect only differences in the costs of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area.

I certify that the AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template. For plans designs that did not fit into the AV Calculator, included in this Part III Actuarial Memorandum is a description of the methodology and numerical values used to develop the AV metal values, and a certification as required by 45 CFR Part 156, §156.135. In accordance with ASOP 50 the AVC- AV metal values are based on prescribed methodology and, therefore, may not reasonably reflect the estimate of the portion of allowed costs covered by the health insurance plan.

I qualify my opinion to state that the Part I Unified Rate Review Template does not demonstrate the process used by UnitedHealthcare to develop the rates. Rather, it represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally facilitated exchanges, and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

Sincerely,

[REDACTED]  
UnitedHealthcare

# Unique Plan Design Supporting Documentation and Justification

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Please fill in the following information.

**HIOS Issuer ID:** 28773

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**HIOS Product IDs:** 28773KY001, 28773KY005

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**Applicable HIOS Plan IDs (Standard Component):** See the "AV Metal Values" section of the Part III Actuarial Memorandum.

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**Reasons the plan design is unique (benefits that are not compatible with the parameters of the AV calculator and the materiality of those benefits):**

See the "AV Metal Values" section of the Part III Actuarial Memorandum.

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**Acceptable alternate method used per 156.135(b)(2) or 156.135(b)(3):**

See the "AV Metal Values" section of the Part III Actuarial Memorandum.

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**Confirmation that only in-network cost sharing, including multitier networks, was considered:**

Only in-network cost sharing was considered.

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**Description of the standardized plan population data used:**

See the "AV Metal Values" section of the Part III Actuarial Memorandum.

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**If the method described in 156.135(b)(2) was used, a description of how the benefits were modified to fit the parameters of the AV calculator:**

See the "AV Metal Values" section of the Part III Actuarial Memorandum.

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**If the method described in 156.135(b)(3) was used, a description of the data and method used to develop the adjustments:**

See the "AV Metal Values" section of the Part III Actuarial Memorandum.

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**Certification Language:**

The development of the actuarial value is based on one of the acceptable alternative methods outlined in 156.135(b)(2) or 156.135(b)(3) for those benefits that deviate substantially from the parameters of the AV Calculator and have a material impact on the AV

The analysis was

- (i) conducted by a member of the American Academy of Actuaries;
- (ii) performed in accordance with generally accepted actuarial principles and methodologies;

**Actuary signature:** \_\_\_\_\_

**Actuary Printed Name:** REDACTED

**Date:** 04/29/2016